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UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT

TRADE AND DEVELOPMENT BOARD

Thirty-seventh session

OFFICIAL RECORDS
Supplement No. 3

Report of the Committee on Invisibles and Financing related to Trade

**on its thirteenth session
second part (30 April-8 May 1990)**

UNITED NATIONS

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NOTE

Symbols of United Nations documents are composed of capital letters combined with figures. Mention of such a symbol indicates a reference to a United Nations document.

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For the recommendations, resolutions, declarations and decisions adopted by the United Nations Conference on Trade and Development, see:

First session: *Proceedings of the United Nations Conference on Trade and Development*, vol. I, *Final Act and Report* (United Nations publication, Sales No. 64.II.B.11), pp. 18-65;

Second session: *Proceedings of the United Nations Conference on Trade and Development, Second Session*, vol. I and Corr.1 and 3 and Add.1 and 2, *Report and Annexes* (United Nations publication, Sales No. E.68.II.D.14), annex I, A, pp. 28-58;

Third session: *Proceedings of the United Nations Conference on Trade and Development, Third Session*, vol. I, *Report and Annexes* (United Nations publication, Sales No. E.73.II.D.4), annex I, A, pp. 53-114;

Fourth session: *Proceedings of the United Nations Conference on Trade and Development, Fourth Session*, vol. I and Corr.1, *Report and Annexes* (United Nations publication, Sales No. E.76.II.D.10), part one, sect. A, pp. 6-43;

Fifth session: *Proceedings of the United Nations Conference on Trade and Development, Fifth Session*, vol. I, *Report and Annexes* (United Nations publication, Sales No. E.79.II.D.14), part one, sect. A, pp. 6-50;

Sixth session: *Proceedings of the United Nations Conference on Trade and Development, Sixth Session*, vol. I, *Report and Annexes* (United Nations publication, Sales No. E.83.II.D.6), part one, sect. A, pp. 6-40;

Seventh session: *Proceedings of the United Nations Conference on Trade and Development, Seventh Session*, vol. I, *Report and Annexes* (United Nations publication, Sales No. E.88.II.D.1), part one, sect. A, pp. 6-27.

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INTRODUCTION

1. The second part of the thirteenth session of the Committee on Invisibles and Financing related to Trade was held at the Palais des Nations, Geneva, from 30 April to 8 May 1990. During the second part of its session, the Committee held six plenary meetings. This report gives a brief account of the proceedings of those meetings.

Opening statements

2. The Chairman said that the external debt problem of the developing countries, which had been aggravated by net capital outflows, was the result of, rather than the cause of, the imbalances which were affecting the stability of the world economy. There was a need for institutional changes and reforms to promote a global recovery in which all countries could share. To be effective, debt-reduction measures ought to be accompanied by appropriate institutional changes focused, inter alia, on how to increase development aid and other forms of capital transfer, and on creating a trading environment that was not afflicted by protectionism and by fluctuations in exchange rates and commodity prices. The time had come for the international community to consider seriously the establishment of an institutional arrangement similar to the process which had led to the Bretton Woods Conference. The United Nations system could play a key role in studying the requirements for a sustained growth of the global economy in an environment not beset with instability. He was hopeful that, in its consideration of the substantive agenda items 3 and 4, as well as of its work programme (item 6), the Committee would be able to place its future work on a sound basis so as to make a significant contribution throughout the 1990s to the intergovernmental debate on these issues and to the clarification of the issues to be dealt with at UNCTAD VIII.

3. The Secretary-General of UNCTAD stated that external financing continued to set the parameters for policy in many developing countries. While the rapid expansion of savings and foreign exchange availabilities was at the heart of the policy agenda, coping with debt problems stood at the centre of the current policy conundrum. Prior to the 1980s, international financial co-operation and the operation of international financial markets had almost invariably produced a positive net transfer of resources from developed to developing countries. Since the mid-1980s, however, international finance had played exactly the opposite role. For many countries, financial co-operation and the operation of financial markets were producing a negative net transfer of resources. Faced with a sharp fall in net flows, rising interest payments and reduced purchasing power of their exports, debt-distressed countries had no alternative to cutting back imports, with adverse consequences for consumption, investment and growth. Furthermore, relative stagnation of output had interacted in many countries with financial disorder, giving rise to debt overhang. He stressed the importance of the fiscal redressment effort that had been successfully undertaken by most debt-distressed countries which, while remarkable, had been associated with a deterioration in the social and economic infrastructure - a cost that had often fallen disproportionately on weaker groups within those countries.

4. He also noted that the recent renegotiations under the strengthened debt strategy for commercial bank debt had displayed considerable ingenuity. However, strong doubts remained whether the current approach would yield sufficient debt and debt-service reduction. According to the secretariat's calculations, the 15 most highly indebted countries, taken as a whole, needed reductions of about twice the order of magnitude that appeared to be in prospect. It would be almost impossible to make up the shortfall by other means as the prospects of new foreign lendings were extremely unpromising, if not undesirable. Other alternative means, such as the return of flight capital and foreign direct investment, were contingent on the durable restoration of macro-economic stability and growth. These instruments should best be perceived in terms of "life after debt" - not as major instruments in surmounting the debt problem. More substantial reductions of the debt overhang should rest on a combination of the following elements: (a) greater assertiveness on the part of creditor Governments and multilateral financial institutions vis-à-vis creditors, including more explicit targets for debt and debt-servicing reduction, and more systematic tolerance of partial moratoria pending the conclusion of adequate agreements with debtors; (b) more flexible accounting, regulatory and tax treatment at the national level designed to ease the pain of debt-reduction and to deter free-riders and easy-riders; and (c) increased financial support by creditor Governments for debt and debt-service reduction.

5. With regard to official debt, the relief resulting from the Toronto measures had unfortunately proved to be very limited. He called for a number of improvements, including a broadening of the eligibility criteria, enhancing the concessionality of Paris Club measures, widening the coverage of consolidation up to 100 per cent of obligations, and relating consolidation periods to financing needs rather than to the length of IMF arrangements, as well as the strengthening of co-ordination between the Paris Club and donor groups.

6. Regarding the process of reform under way in Eastern Europe and the concomitant ending of the Cold War, he said that those processes had opened opportunities for substantially scaling down military expenditures. This eventuality would make it possible for industrialized countries to better meet their own social and other needs; it would also open up possibilities for much more extensive support of economic transformation in both Eastern Europe and in developing countries. The translation of this potential into reality required statesmanship of the highest order. Without it, much of the financial assistance extended to Eastern European countries might well be at the expense of flows to the developing countries. It would be a tragedy if the international community were to become entangled in the question of how to allocate among a larger number of claimants the already woefully inadequate volume of assistance. The challenge was how to channel détente into transformation and development in the South as well as in Europe.

Chapter I

REVIEW OF INTERNATIONAL MONETARY AND FINANCIAL QUESTIONS RELATED TO TRADE AND DEVELOPMENT, INCLUDING, IN PARTICULAR, OFFICIAL DEVELOPMENT CO-OPERATION

(Agenda item 3)

DEBT AND MANAGING ADJUSTMENT: ATTRACTING NON-DEBT-CREATING FINANCIAL FLOWS AND NEW LENDING

(Agenda item 4)

7. For its consideration of these two agenda items, the Committee had before it the following documents:

Item 3: "The external financing of development" - report by the UNCTAD secretariat (TD/B/C.3/235)

Item 4: "Debt and managing adjustment: attracting non-debt-creating financial flows and new lending" - report by the UNCTAD secretariat (TD/B/C.3/234).

8. The Director and Co-ordinator of Resources for Development Programmes made a statement introducing agenda items 3 and 4. (The text of the statement was subsequently circulated to participants in English only).

9. The spokesman for the Group of 77 (Uruguay) stated that, notwithstanding recent positive international developments including strong growth in international trade, détente and the process of reform in Eastern Europe, it should not be forgotten that efforts to solve the critical economic problems of developing countries had been grossly inadequate. He singled out the sharp drop in private financial flows to developing countries as a factor having severe adverse effects on their external financial position. Cut-backs in export credits had also reached alarming levels. Consequently, official flows, while stagnating in real terms, had grown in relative importance. The decrease in ODA flows since the mid-1980s was of particular concern to low-income countries. The debt crisis had reached unsustainable levels. Indeed, the emergence of large net negative transfers was clearly incompatible with the development objectives of developing countries. It would be impossible for developing countries to achieve growth and strengthen their payments capacity as the continuous export of capital severely hampered domestic capital formation and the maintenance of adequate levels of productive investment.

10. He noted that the response from the multilateral financial institutions (MFIs) had been entirely inadequate to the needs of developing countries - a problem that was further compounded by the emergence of large net transfers to those institutions. He referred to the considerable effort made by developing countries in improving the conditions for foreign direct investment, including the liberalization of domestic policies, the introduction of new incentives and debt/equity conversion schemes. However, the limited results achieved so far underlined the crucial importance of re-establishing domestic macro-economic stability and growth, which in turn were hinged on a durable resolution of the debt crisis.

11. In respect of recent initiatives on commercial bank debt, he pointed out that, while the Brady Plan recognized that debt and debt-service reduction had key roles to play in solving the debt crisis, it nevertheless suffered from several limitations including inadequate resources for debt reduction, limited support from commercial banks and excessive conditionality which restricted developing countries' eligibility. While the situation vis-à-vis official debts had improved substantially with the introduction of the Toronto terms in 1988, substantial debt relief was still not available for most debtors. He drew particular attention to the plight of the least developed countries and stressed the need for development assistance to be supplemented by measures designed to eliminate their debts.

12. Concerning the implementation of structural adjustment programmes, he expressed the deep concern of the developing countries about the adoption of measures incompatible with their development requirements. The return to macro-economic stability and growth must be accompanied by adequate measures to solve the debt problem, including better market access for developing countries' exports to industrialized countries. Adjustment programmes must also respond to domestic social and political considerations and there must be a realistic time-frame for the implementation of reforms. Nevertheless, developing countries had adopted many adjustment measures with great internal sacrifices, while their basic economic problems such as the heavy debt burden had continued without finding a lasting solution for nearly a decade. On the other hand, the developed countries had not undertaken the structural adjustment policies and measures necessary to reduce and subsequently eliminate their existing huge fiscal and current-account imbalances. Instead, through managed interest and exchange rates, they were shifting the burden of the adjustment of their own economies on to developing countries, further aggravating the developing countries' already difficult situation. He called for the urgent adoption of appropriate adjustment measures by industrialized countries, including the reduction of current-account and fiscal deficits, the lowering of interest rates and major improvements in global savings and external investment flows.

13. The spokesman for Group B (France) said that the analysis of structural adjustment put forward in TD/B/C.3/234 called for some remarks. To begin with, the financial credibility of a country in the medium term was linked to the confidence attached by international institutions to its national economic management. Debtor countries themselves had to adopt measures aimed at improving the management of external finance and the generation of foreign-exchange earnings. Moreover, adjustment was intimately linked with development finance and was not merely the counterpart of debt management. For example, foreign investment was not possible without a favourable national context. Any prolonged imbalances would jeopardize the efforts accepted by the population. For these reasons, Group B could not share the analysis of the UNCTAD secretariat on the causes of the macro-economic disorder in developing countries. Whereas the UNCTAD secretariat documents underlined the importance of negative net transfers of resources, a number of qualifications were called for with regard to net transfers related to debt. These transfers did not take into account non-debt-creating flows, for example foreign investment, grants and technical assistance. Furthermore, these transfers were influenced by flight capital. In addition, a net negative transfer was not in itself an unfavourable characteristic, as was shown by some newly industrialized Asian countries. Finally, the analysis of transfers by

categories of countries underlined the risks of drawing conclusions from aggregate data. Using a broader definition of net transfer (i.e. the difference between total inflows and outflows of finance), in 1988 there was a positive net transfer to developing countries of more than $US 10 billion. The efforts of creditor countries had to be underlined as they had contributed to two thirds of net resource flows in 1988, compared to a level of one half in 1980. ODA had increased in absolute terms. The OECD member countries had reaffirmed the importance of expanded development finance and were collectively striving to achieve substantial increases in ODA.

14. On managing debt, the UNCTAD secretariat made proposals which differed from the balanced approach of Board resolution 375 (XXXVI). It was not acceptable that, as a matter of principle, the treatment of debt would consist of a unilateral and supplementary effort by one category of creditors only. A case-by-case approach was necessary, as opposed to a uniform level of debt reduction. Efforts of debtor countries were also necessary. Moreover, the debt problem was too often described only in terms of stock. But it was also a problem of flows and any debt reduction operation had, for example, to take into account the impact on new credits and insurance cover. Debt reduction was only one way of solving debt problems, and in some instances it could even reduce the prospects for "fresh money". Furthermore, the mechanisms adopted by the World Bank and IMF had begun to benefit some countries. It was hoped that other countries would also arrive at agreements on commercial debt reduction. In evaluating the implementation of the strengthened debt strategy, it was important to keep in mind: (i) the complexity of negotiating agreements on debt reduction; (ii) the fiscal costs of debt reduction; (iii) the need to promote foreign investment and the return of flight capital; (iv) the essential role played by the Paris Club. The evaluation of the Toronto measures was not to be made in a short-term perspective. To date, 16 countries had benefited from such measures. As they were designed, the reschedulings in the Paris Club could not be considered as insufficient per se. Reschedulings not entailing debt cancellation implied the choice of fresh money among the various menu options.

15. In concluding, he stressed that the time had come for the Committee to adopt an original work programme. It was in studying the real world, and especially the complex relations between external financing and national experiences, that the Committee could make progress. For example, it was desirable to analyse the requirements for creating a national consensus on reforms and adjustment programmes. Also, a degree of priority could be given to the role of foreign investment in development.

16. The representative of Ireland, speaking on behalf of the European Economic Community and its member States, referred to the need for the Committee to adopt a work programme which would complement and not duplicate the work of the Trade and Development Board and the Conference. She regretted that the Committee had not met in 1989 as had originally been scheduled. This had led to a situation whereby the Committee now clashed with the meetings of the Interim and Development Committees.

17. On the question of debt, she regretted the fact that the secretariat, in its documentation, had not taken into account Board resolution 375 (XXXVI) which dealt with the debt and development problems of developing countries and which the Board had adopted by consensus in October 1989. She reaffirmed the intention of the Community and its member States to play an active part in

finding realistic solutions to the debt problem of developing countries. She stated that the need for substantive additional aid efforts by the international donor community was recognized. At the recent special session of the United Nations General Assembly, the Community and its member States had reaffirmed their commitment to meeting the United Nations target of 0.7 per cent of GNP for development assistance.

18. She recalled previous discussions in the Board on issues of macro-economic disorder, debt and structural adjustment, as well as the recently concluded Preparatory Committee for the Second United Nations Conference on the Least Developed Countries which had agreed, to a large extent, on the policy guidelines which should be borne in mind in the design and implementation of LDCs' macro-economic programmes, as well as on the initiatives and conditions which would encourage investment in those countries. The Community and its member States regretted that the report by the secretariat (TD/B/C.3/234) did not address that element of agenda item 4 which referred to attracting non-debt-creating financial flows.

19. In relation to resource flows, she underlined the importance of the recently concluded Fourth Lomé Convention between the EEC and the ACP States. Lomé IV envisaged a real increase in resources of 25 per cent in comparison with the previous five-year period. At the same time, a major effort had been made to improve the quality of Community aid by making it even more concessional. Lomé IV also offered a number of major innovations, the most important of which was the inclusion of provisions on support for structural adjustment policies which would allow the Community, in liaison with other donors, to work towards a pragmatic, realistic and individually tailored approach to the problem of structural adjustment. Features of the Community's specific approach were: (i) the internal nature of the process, namely that national authorities in developing countries would assume responsibility for the preparation and implementation of reform programmes; (ii) support would be tailored to the country and suited to local conditions and constraints; (iii) a realistic timetable for the implementation of reforms that took full account of the social dimension and would seek to attenuate the effects of adjustment policies on the poorest groups in the population; and (iv) consideration of long-term development objectives such as food security and environmental protection in drawing up structural adjustment programmes. The Community considered that the implementation of growth-oriented adjustment programmes was an urgent necessity. The new Convention also placed much greater emphasis on the private sector and the role it should play in stimulating growth and diversifying the ACP economies. Lomé IV also contained provisions on investment promotion, protection, support and financing, notably with risk capital, that were much more comprehensive and operationally-oriented than before.

20. She underlined the importance of enhancing the effectiveness of aid, and also the responsibility of poverty and economic decline for environmental deterioration. The Community recognized the need for a world-wide, co-ordinated approach to the protection of the environment: such an approach would necessitate environmental policy co-operation, investment and transfers of appropriate technologies to developing countries. It accepted the fact that additional resources would also be required to complement the efforts of developing countries.

21. Referring to the fears often expressed that support for the reforms under way in Eastern Europe would detract from the commitment of industrialized countries to development co-operation, she pointed to the recent reaffirmation by the Community and its member States at the special session of the General Assembly of its commitment to continue to provide substantial concessional support to the developing countries.

22. The representative of Japan stated that, in spite of some progress made in solving the debt problem, the problem remained serious. Total financial flows to developing countries should be expanded and developed countries should endeavour to create an open and vigorous international economic environment. However, simultaneous efforts by developing countries themselves in implementing structural adjustment were of crucial importance. The complaints by some developing countries of "severe conditionalities" imposed by the international financial institutions should not be used to justify an inadequate implementation of domestic adjustment policies. The social effects of adjustment measures were largely dependent on the actual modalities of their implementation. The strengthened debt strategy had been applied to several middle-income indebted countries, and it was necessary for the time being to watch carefully its implementation. For severely indebted low-income countries, it was necessary to continue to take into account the special situation of those countries and to evaluate the concessional rescheduling within the Paris Club framework. Japan had taken several concrete measures for relieving the financial and debt burden of the indebted developing countries. First, Japan has officially announced its intention to increase its ODA to more than $50 billion for the period 1988-1992. It had also committed itself to expanding its recycling programme, with a target of more than $65 billion for 1987-1992. At the end of January 1990, 56.3 per cent of the target volume had already been fulfilled. Secondly, Japan had allocated $10 billion out of the recycling programme for the implementation of the strengthened debt strategy. In addition, Japan had decided to lift in principle the ceiling of taxable loan loss provisions by private banks. Thirdly, in relation to the Toronto measures, Japan had chosen (i) "write-off" equivalent measures for concessional loans to least developed countries; (ii) to extend to 25 years the rescheduling period for concessional loans to other developing countries; and (iii) to reduce interest rates for rescheduled officially guaranteed loans. In addition, since 1987 Japan had provided non-project type grant aid to severely indebted low-income countries in sub-Saharan Africa. Concerning the contribution of private capital to development, he felt that paragraph 61 of TD/B/C.3/235, although couched in general terms, provided a good basis for the Committee's future work.

23. The representative of the United States of America said that the UNCTAD secretariat's analysis of the sharp fall in net resource flows to developing countries which had occurred in the 1980s had failed to consider that this event had been caused by the massive default by developing countries on loan obligations and the consequent collapse of foreign creditor confidence. While debt was a serious problem for many developing countries, inappropriate domestic economic policies were the principal cause of constraints on economic growth and development. The debt crisis had brought the realization to many that large fiscal deficits could not be sustained indefinitely through excessive borrowing or monetary expansion and that private saving and investment needed to be stimulated. In this light, he found the secretariat's analysis and approach to be shallow. Its narrow focus on debt implied that development problems could be surmounted solely by reducing debt burdens and

ignored the importance of domestic policies and their impact on the supply of finance. UNCTAD had attempted to attribute the origin of macro-economic instabilities in many developing countries to external debt servicing rather than to excessively expansionary fiscal policies. The evidence indicated on the contrary that, in Latin America, countries which maintained full interest payments had the most stable macro-economic environments. Despite this, the secretariat had taken the view that more external finance on easier terms coupled with debt reduction would, by itself, move developing countries on to a path of sustained growth. By not dealing with the required economic adjustments, the secretariat had ignored the need for a country to attain economic stability before any debt reduction could be beneficial. This required privatization or dismantling of inefficient public-sector enterprises, expanded exports, reduced inflation, realistic exchange rates, elimination of distortive price controls and subsidies, deregulation and attraction of foreign investment and other private inflows. He recalled that the member States had requested the secretariat to investigate exactly those issues in preparing the documentation for this agenda item and expressed dismay that the secretariat had strayed so far from this intent. He felt that there was a danger that this sort of analysis would increase the irrelevance of the Committee as it attempted to tackle issues with which other multilateral institutions dealt authoritatively.

24. The United States delegation felt that the work programme of the secretariat should focus instead on how developing countries, in practical terms, could best pursue the adjustment policies necessary for renewed growth and development. In particular, and on the basis of work already being done elsewhere in the United Nations system, UNCTAD could address the following issues: (i) the financing of privatization; (ii) developing domestic capital markets; (iii) ways to attract foreign direct investment; (iv) how to improve domestic saving rates; (v) attracting the return of flight capital; and (vi) how to establish a social consensus for domestic adjustment programmes.

25. The representative of China said that, in spite of the continuous momentum of growth in the world economy, the development process of different countries and regions remained unbalanced. Most developing countries were in a disadvantageous position, especially in the areas of development finance and debt. The issues of trade, development finance and debt were of a global nature and called for a strengthening of co-ordination and co-operation among all countries. A good international economic environment was imperative for the solution of these problems and the restoration of developing countries' growth and development was a prerequisite. Since the beginning of the debt crisis, creditor countries had made some efforts to solve the debt problem. Progress had been made as a result of a number of debt reschedulings and debt reduction agreements. For the solution of problems in the areas of development finance and debt, the developed countries, especially the major ones, had to fulfil their commitments. They should adopt appropriate policies aimed at expanding export credits to the developing countries, increasing financial assistance to them and meeting ODA targets at an early date. They should also create a favourable external environment by checking protectionism and reducing interest rates. In addition, recent developments in East-West relations should not have any negative impact on the economic co-operation between the developing countries and countries in East and West, especially in the area of development finance. To solve their debt problem, the developing countries should continue to adopt appropriate policy measures in adjusting their economies. The international community should provide support, and in

particular the World Bank and IMF should continue to play an active part in utilizing appropriately adjustment lending as a support to the economic adjustment of the developing countries. Given the grave international economic and financial situation, it was essential to restructure the international economic order and to establish a new one. There did not exist in the world today a uniform development model. All countries were fully entitled to choose their development path in line with their own national situation.

26. China, as a developing country, had encountered some difficulties in the process of economic reforms over the past few years. However, by means of economic adjustment, the excessive growth rate of the economy had slowed down. The problem of social demand exceeding social supply had been moderated by reducing the oversized fixed investment and by bringing inflation under control. The economy was moving in the right direction in the process of economic adjustment and in-depth reform. In the future, China would continue to adhere to the basic State policy of reform and openness, and to expand actively its foreign trade and its economic and technical exchanges. Foreign investment was welcomed, and the investment environment had been constantly improving, as shown by the recent amendment to the Foreign Joint Venture Law adopted by the National People's Congress.

27. The spokesman for Group D (USSR) underlined the sharp contraction of the net flow of resources to developing countries in the 1980s, which had been due to considerably diminished private capital flows and increased debt-service payments. Many indebted countries continued to be trapped by the debt crisis. Developing countries as a group had a negative balance in transfer of resources. Although the role of IMF and the World Bank as creditors and resource flow regulators had been increased, the funds provided by them could not compensate for the decrease of private capital flows to the indebted countries, and the situation of these countries had deteriorated. Nevertheless the reforms undertaken in some debtor countries, following the recommendations of IMF and the World Bank, had brought positive results by focusing on the efficient use of domestic resources. The indebtedness of the indebted countries as a global problem should be solved in the context of an interdependent world. He noted the efforts of Western creditors to provide partial debt relief.

28. He also stressed the challenges of the 1990s in the field of international financial co-operation. He recognized the importance of external financing in the development of developing countries but stressed the central role of economic reforms to be undertaken by those countries to secure more efficient resource mobilization. He outlined the economic and social reforms in the countries of Eastern Europe aimed at establishing market economies. While recognizing that implementation of these reforms would be accompanied by further development of co-operation with developed market-economy countries, including in the financial sphere, he disagreed with the assertion that this process would divert resources from developing countries. At the same time, he expressed the hope that success with economic reforms in Eastern European countries would encourage their co-operation with developing countries. He also noted the diversity of the situation in each of the countries of Eastern Europe, including the priorities concerning their

future socio-economic development. He pointed out the positive role of cuts in military budgets, including those of developing countries. He also stressed the role of UNCTAD as a universal body dealing with the questions of trade and development and monetary and financial issues, and suggested that issues of money and finance should have a prominent place on the agenda of UNCTAD VIII.

29. The representative of Iraq stated that external indebtedness of developing countries and in particular the reduction of resource flows to those countries were major obstacles to the realization of their development objectives. The aggravation of the debt crisis also affected the stability of international financial markets. The main problem facing debtor developing countries was to find a balance between adequate utilization of new money and the increasing burden of debt service. The failure to solve the debt crisis stemmed from several interacting elements: the reduction in net financial flows provided by multilateral financial institutions; the weakening of trade relations between developing and developed countries; the radical change in the structure of financial flows to developing countries in the 1980s compared to the two previous decades.

30. He identified three types of indebtedness: debts owed by low-income countries to the multilateral financial institutions and to developed countries; debts owed by low-income countries to other developing countries; and debts owed by middle-income countries to developed countries, multilateral financial institutions and commercial banks. He added that finding a solution to the debt problems of low-income countries necessitated debt and debt-service reduction and more favourable rescheduling terms. Interest-rate reduction should be envisaged in respect of other categories of debt. He supported the following elements for a solution to the debt crisis: reviewing the structure of interest rates; reinforcing official financial flows, in particular adjustment lending from the multilateral financial institutions, and strengthening bilateral ODA; and inviting creditor countries to improve their lending policies and to reduce protectionism.

31. The representative of Czechoslovakia stated that in the past several months her country had changed in many ways. Her Government had abandoned the principles of a planned economy and had commenced the process of transformation towards a market economy. Central planning had been abandoned as the main method of management. Moreover, the role of the budget had been strengthened, the target being to achieve a budget surplus under a tight monetary policy. Furthermore, the National Assembly had adopted a number of laws to enable the gradual introduction of market-oriented mechanisms. Among them were laws relating to private business, State enterprises, joint-stock companies, joint ventures and foreign exchange. Her Government considered that the main tasks ahead were price reform and privatization. In the field of external economic relations, Czechoslovakia had formally applied for membership in IMF, the World Bank and its affiliates. Although large financial resources were needed to support the process of economic transformation, her Government would none the less continue to be very prudent about the inflows of foreign capital as it was determined to avoid any problem of external indebtedness.

32. The representative of the German Democratic Republic stated that it was the aim of his Government to restructure the country's economy completely into an ecologically determined social market economy based on the ideals of social justice, international solidarity and assistance for the poor. As an important pre-condition for enhancing development co-operation with developing countries, his country considered that it was necessary to restructure its own economy with the aim of fostering economic stability and growth. This would involve a number of important tasks, including the introduction of new legislation on deregulation, competition and banking; a complete change of the mechanisms of price formation; the introduction of an effective tax system, and the stabilization of State finances. These efforts would be based on close co-operation with the Federal Republic of Germany, in particular with regard to the establishment of a monetary, economic and social union in the process of the unification of the two German States. It was also the intention of his Government to liberalize external trade by abolishing foreign trade State monopoly and reducing existing economic and trade restrictions. During the transitional period certain safeguard mechanisms might be necessary, in accordance with internationally accepted principles.

33. He supported the view that economic and social restructuring in the countries of Eastern Europe and their progressive integration into the world economy would require new inflows of financial resources in convertible currencies on an unprecedented scale. However, he considered that these private flows would consist mainly of foreign investment and bank lending, and therefore would not lead to reduced ODA for the developing world. As regards development assistance from the German Democratic Republic to developing countries, his Government intended to render such assistance especially in the economic, medical and social fields. He stated that grant assistance from the German Democratic Republic to developing countries in 1989 had been close to the 1988 level, where total assistance had amounted to 0.64 per cent of GNP. For future aid activities, he also referred to the announced co-operation of both German States in this respect.

34. The representative of Brazil, responding to comments made by the representative of the United States of America, stated that the new Administration in Brazil was implementing a programme of thorough economic reforms. It was addressing the legacy of hyper-inflation, through a temporary freeze of liquid assets, a tight control of the money supply, an increase in taxes, and a reduction in government expenditures. Concerning structural adjustment, the Government intended to privatize public enterprises, and on the trade front it had already freed the exchange rate and was implementing a programme aimed at the liberalization of trade, having already lifted the ban on imports of some 2,000 products. On the Government expenditure side, subsidies had been largely removed. However, she stressed that the international financial environment was largely responsible for the debt crisis, and therefore debt reduction had to be seen as an integral part of a co-operative international effort to restore the internal and external viability of debtor countries, rather than as something which would follow successful stabilization policies. Finally, she welcomed the documentation prepared by the secretariat, which she found to be extremely useful for the work of the Committee.

35. The representative of India said that the low ebb of development co-operation in the area of financial flows was largely responsible for both instability in the world economy and the relatively low rate of growth in all developing countries during the 1980s. In view of the decline in the net flow of ODA in real terms of about 1 per cent per annum during the 1980s, he stressed the need for official flows to play a more dominant role in the 1990s, particularly in the share of multilateral financial institutions (MFIs) in net financial flows to developing countries. Concerned at the far from promising outlook for the 1990s, he expressed the hope that developed countries would make an effort to achieve the elusive ODA/GNP ratio of 0.7 per cent, that lending by MFIs would take into consideration the divergent individual requirements of developing countries, and that the financial needs of the countries of Eastern Europe would not be met at the expense of those of developing countries.

36. With respect to environmental degradation and its link to the problem of poverty, he pointed out that, while substantial progress had been made in reducing the poverty ratio in his country, the problem of eradication of poverty remained a major challenge to his Government.

37. Noting that external debt continued to be a major problem in international financial relations, he stressed the need for more attention to be paid to official debt. His delegation would support proposals or measures leading to the reduction of debt and debt service related not only to commercial bank loans but also to bilateral and multilateral official loans, provided that the normal lending operations of MFIs were not adversely affected. In addition, he called for further liberalization of the Toronto measures in order to make such concessions available to all low-income countries. He also urged that Trade and Development Board resolution 165 (S-IX) be fully implemented and complemented by further concessional relief on non-concessional bilateral debt.

38. Finally, expressing appreciation for the reports prepared by the UNCTAD secretariat for this session of the Committee, he suggested that the secretariat should undertake a study on the effects on developing countries of the single market within the European Community envisaged for 1992.

39. The representative of the International Monetary Fund (IMF) said that many of today's debt problems were a legacy of the difficulties that indebted countries had experienced in their management of adjustment. There was an emerging consensus that there was no alternative to structural reforms and the elimination of economic imbalances. This shift in perception had been particularly striking in a number of countries that for many years had pursued policies based on an entirely different approach. Restoring macro-economic order in the context of a growth-oriented structural adjustment programme involved several essential components. First, a basic lesson of the past was that Governments needed to be cautious about taking on functions that could be performed as efficiently, or better, by the private sector. Such involvement had tended to result in an unresponsive and rigid productive sector operating within a distorted and inefficient set of economic incentives. Secondly, selective policies to guide economic development and influence the allocation of resources had often led to the curtailment of dynamic activities in favour of less efficient ones. Finally, sustained growth would be elusive without macro-economic policies that themselves were sustainable over the longer term.

40. The availability of sufficient external resources was essential for the success of adjustment programmes. In some cases, financing problems could be complicated by a debt burden so large that it threatened to interfere with the success of adjustment policies. In such cases, debt or debt-service reduction might be required to ensure that adjustment policies could be successfully implemented. However, debt reduction was not a panacea and was appropriate only in particular cases. Where not appropriate, it could result in the discouragement of external resource flows and of internal savings and investment.

41. The representative of Hungary stated that the external debt problem had become a major obstacle to further development of many countries and that an effective solution required a case-by-case approach. Experiences had proved that responsibility for resolving the debt problem rested largely with debtor countries. As the accumulated debt reflected mainly the lack of efficiency, inadequate policy choices, and the insufficient real performance of the economies, it was necessary to create a climate for better use of resources, both foreign and domestic. All that meant that basic economic reforms had to be initiated and carried out in order to avoid the repetition of the process of indebtedness. The domestic side of the foreign indebtedness was often a big budget deficit, caused by subsidies or by inefficient and prestige investments. The task was to let market forces work, which included, inter alia, privatization, establishment of a capital market, liberalization of prices and wages. The adjustment process might be painful, but a broad consensus could be facilated by the knowledge that postponement of corrective measures would lead to even more painful consequences.

42. He was surprised to read in the secretariat report about the fear that asistance to Eastern European countries might divert resources from traditional aid recipients. There was no such group of countries as "Eastern Europe countries" since countries in central and Eastern Europe were different as regards both their financial and economic situation and policies. Besides, in some respects some of these countries had the same problems as the developing countries, though he agreed with the view that the East European countries did not share the economic characteristics of developing countries. No one could say where the money that was to come to central and Eastern Europe, including Hungary, would flow otherwise.

43. He recalled that Hungary had signed a stand-by agreement with IMF in March 1990. It aimed at creating an efficient management system for the national economy. Hungary had committed itself to abolish the deficit of the balance of payments on the current account by 1992. This meant that Hungary's needs for finance would decrease on the whole. It may be true at the same time that the structure of its capital needs would change, a growing part being covered by development purpose capital inflow from regional institutions and direct foreign investment.

44. The representative of the Union of Soviet Socialist Republics outlined the main features of economic reforms in the USSR aimed at establishing a regulated market economy. He also commented briefly on his country's co-operation in the financial field with developing and developed market-economy countries. He stressed that the USSR considered the debt question to be one of the acute global problems of international relations.

Its resolution called for responsibility on the part of all participants in credit relations, taking into consideration both internal and external aspects of the problem, and exploiting bilateral and multilateral channels. He noted the positive impact of some recent debt reduction initiatives. The overcoming of East-West confrontation had been conducive to emerging favourable conditions for finding common approaches to the debt problem. He stated that in 1988-1989 the USSR had also extended debt relief measures equivalent to 14 billion roubles. Additional measures vis-à-vis LDC debtors were in the process of elaboration. He confirmed that the USSR was ready to participate in multilateral actions aimed at finding ways to solve the debt problem. The formulation of common principles, while not excluding country-specific approaches, could be useful here. The debt question should be resolved in the context of resumed growth in debtor countries. Economic reform and more efficient use of resources were the main conditions for achieving that end. More efficient use of aid resources was also important, as was the role of multilateral mechanisms for co-ordinating policies in the areas of aid and debt. He referred in this context to the Soviet policy of rapprochement towards IMF and the World Bank. While holding consultations with these institutions, the USSR was trying to take into consideration world practices in undertaking reform in the financial and monetary spheres, having in mind the eventual integration of the USSR into the international monetary system.

45. The representative of Poland referred to the need for complementarity and not duplication of the work of the Committee with that of the Board and the Conference. He said that the UNCTAD secretariat documents could have been enhanced by examining debt and fiscal adjustment across a wider spectrum of countries, and by looking at issues other than external financing of development. Poland belonged to the group of 19 severely indebted middle-income countries as defined in the World Bank's debt tables 1989-1990. His country was not a developing one, but it shared the debt problems of such countries. A satisfactory, just and durable solution to the global debt problem required (i) debt and debt-service reduction as well as its restructuring; (ii) resumption of capital flows to the indebted countries; (iii) a more rapid expansion of the world economy, and of the exports of debtor countries in the increasingly open trading system. The international "debt-cum-growth" strategy had to be pursued vigorously, and be applied to all debtor countries on a case-by-case basis. A precondition was the sustained economic recovery and development of debtor countries, to which a revitalization of international trade could contribute. It was hoped that the Uruguay Round negotations would contribute to trade expansion and liberalization. Poland, as a debtor country, was undertaking the necessary internal adjustment at severe social and economic costs. Such adjustment would not have been possible without a supportive international environment. Also, the country still needed such an environment as it was at the historic turning point of moving from an authoritarian, centrally-planned economy to a democracy and a market economy. The need for such radical reform, which was an unprecedented experience, had the universal support of the population. The Solidarity Government was both the guarantee and the vehicle for this reform. The "Balcerowicz Plan", supported by IMF and the international financial community, had the main objective of stabilizing the economy by reducing inflation through, inter alia, a restrictive monetary policy. It had yielded its first positive results, and it was hoped that the problems of decreases in real incomes, production output and employment were of a transitional nature.

A suspension of debt service for at least three years was required, and the positive response of the international community in that direction was noted and should be further strengthened. Moreover, there was a need for access to fresh credits for economically viable, export-oriented projects. He hoped that the World Bank would continue to assume a triggering role in reactivating international financing for Poland. He was convinced that support for Poland was in the best interest of the interdependent world economy.

46. The representative of Romania stated that her country supported the position of developing countries as expressed by the spokesman for the Group of 77. Romania was in the process of transition from a centralized economy to a market economy. Many complex problems were involved. However, Romania had the advantage of having no external debt. Among the principal measures adopted in support of the restructuring of the Romanian economy were new priorities for the allocation of foreign exchange, elimination of excessive bureaucratic centralization, the strengthening of private ownership and initiative, abolition of laws and regulations which hindered the development of the foreign trade sector, liberalization of the régime for foreign investment, and abolition of multiple exchange rates. Normal relations had been resumed with IMF and the World Bank. Since the restructuring of the Romanian economy and its integration into the world economy would be influenced by the international economic environment, Romania supported proposals regarding early resolution of international economic crises, the necessity of increasing financial flows to developing countries and better market access conditions for developing countries' exports to industrialized countries.

47. The Director, Co-ordinator of the Resources for Development Programmes, responding to remarks made in relation to items 3 and 4, stated that the establishment by debtor-country Governments of comprehensive and sound programmes of economic adjustment and stabilization was a central element in any approach to debt and adjustment. In that regard, three broad points emerged from the secretariat's analysis of macro-economic disorder: first, considerable success in fiscal adjustment had already been achieved by many debtor countries. For example, between 1981-1982 and 1986-1987 improvements in the total public sector budget balance of Argentina and Costa Rica had amounted to 10 per cent of the GDP in each country. He recalled that the total elimination of the federal budget deficit in the United States would require an improvement equal to about 2 per cent of United States GDP. Most other countries examined also showed considerable improvement in fiscal balances over the period. He noted also that the level of imbalance in debtor countries from which adjustment began was frequently very high, and was in most cases larger relative to GDP than that of the United States. The central fact was that very substantial progress in bringing about fiscal adjustment had occurred in many countries. In quite a few, however, problems persisted, and further effort would be required.

48. Secondly, the analysis revealed the great complexity and difficulty of the policy problems facing debtor developing countries. As pointed out by the representative of IMF, the implementation of structural adjustment programmes and the achievement of a healthy fiscal, monetary and balance-of-payments position were most often extremely difficult, particularly when imbalances had persisted over longer periods and when distortions and rigidities were deeply embedded. Thirdly, there was the interconnectedness between external debt

service and the public sector budget balance. For example, between 1981-1982 and 1985 the increase in interest payments by the public sector of Brazil had amounted to some 17 per cent of Brazil's GDP. Between 1981-1982 and 1986-1987 the increase in interest payments by the public sector of Mexico had amounted to some 10 per cent of GDP. These figures were extremely high and were not typical of the other countries that had been examined. But even increases in interest payments of the order of 2 per cent of GDP - a figure which was typical - exerted significant pressures on fiscal balances. Therefore debt and debt-service reduction needed to be seen not only in the context of external cash flow requirements but also in the light of the contribution that it could make toward easing fiscal problems.

49. On the concept of net transfers he explained that the figures presented had been derived from balance-of-payments statistics for a sample of 107 developing countries. The definition adopted was appropriate for assessing the overall impact of all financial transactions on the flow of goods and services to and from the economy in question. On the issue of the possible diversion of financial resources from developing countries to countries of Eastern Europe he expressed the view that in order to ensure that this did not materialize the matter should continue to receive policy attention by authorities in developed and developing countries.

50. Finally, he reminded the Committee that, owing to the failure to agree on an agenda for the current session within the stipulated timeframe, the secretariat had been faced with the choice of either submitting documentation in accordance with deadlines without knowing what the agreed agenda would have been, or of issuing documentation too late to have been of assistance to the Committee. The secretariat had been aware that whatever option it had chosen it would have been criticized. He added that the annotations to the agenda were consciously designed to assist the Committee in relating the agenda items as agreed to the relevant chapters and sections among the reports as submitted.

Action by the Committee

51. At the 224th meeting, on 2 May 1990, the spokesman for the Group of 77 (Uruguay) introduced a draft resolution on agenda items 3 and 4 (TD/B/C.3/L.176) which he had submitted on behalf of the States members of the Group of 77. (For the action taken by the Committee, see chapter III, section A, below.)

Chapter II

REVIEW OF THE WORK PROGRAMME OF THE COMMITTEE

(Agenda item 6)

52. For its consideration of this item, the Committee had before it the following document:

"Review of the work programme of the Committee with respect to financing related to trade" - note by the UNCTAD secretariat (TD/B/C.3/236).

53. The Director, Co-ordinator of Resources for Development Programmes made a statement introducing agenda item 6.

54. The spokesman for the Group of 77 (Uruguay) said that, although the work programme of the Committee had not been carefully examined at the twelfth session of the Committee in 1986, the regional groups had nevertheless had the opportunity to discuss the matter. His group had focused on three major issues: the external debt; ODA; and the negative transfer of resources. The Committee on Invisibles and Financing related to Trade, while considering a broad range of topics, concentrated its attention on financial and international monetary issues which fell within the framework of its mandate. His group was of the view that the Committee should continue its work in this field and carry on studying the impact of international financial and monetary questions on the economies of the developing countries.

55. He considered that the future programme of work of the Committee should draw inspiration from the three following sources:

- The proposed UNCTAD programme budget for the biennium 1990-1991;
- The UNCTAD sections of the United Nations Medium-term Plan for 1992-1997;
- The secretariat note on the review of the work programme of the Committee (TD/B/C.3/236), in particular paragraph 11.

The latter source was an important basis for the formulation of the Committee's work programme as well as an essential element of consensus among groups. Moreover, the Committee should keep abreast of discussions taking place in other forums. Finally, he observed that the outcome of the eighth session of the Conference would undoubtedly influence the future work programme of the Committee.

56. The representative of China stated that he agreed in principle with the contents of the secretariat note (TD/B/C.3/236), in particular the section on the future work of the Committee, and that he supported the proposal by the Group of 77 to include debt, ODA and reverse financial flows in the future work programme of the Committee. Although the world economy as a whole was progressing, development remained unbalanced among different regions of the world: some countries and regions were maintaining a high growth rate while

others, in particular the least developed countries, were witnessing a slow-down in their economic development. In view of the world economic situation, his delegation was of the view that the future work of the Committee should focus on the following questions: First, the flow of international capital and finance for development: both developed and developing countries needed financial resources - an indispensable element for the expansion of production and economic growth. The secretariat note highlighted the drastic fall in total financial flows to developing countries, which had been detrimental to those countries' efforts to raise production, promote economic growth and improve their capacity to serve the debt. In addition, the Committee should study and endeavour to find solutions to questions such as structural adjustment, the international environment, export prospects and settlement of the debt problem. Second, the international monetary issue: exchange rate fluctuations and high interest rates had adverse effects on international trade and the economic development of developing countries, weakening their capacity to pay off their debt and jeopardizing their attempts to benefit from enlarged external financing. The Committee should work on the co-ordination of exchange rate policies of different countries, thus contributing to reducing interest rates and stabilizing the world economy. Third, the impact of the trend of economic grouping and regionalization on the distribution and direction of the flow of international resources. This trend, illustrated by the examples of the 1992 single market of the European Economic Community and the United States-Canada Free Trade Agreement, would greatly influence the economic development of countries, the development of international trade, the world economy as a whole and an eventual solution to the debt problem, as the European market would most probably attract investment and flows of capital resources. In this connection, it would be of interest to the Committee to examine also the flow of international capital towards countries of Eastern Europe undergoing structural adjustment and which needed external resources to finance their economic development.

57. The spokesman for Group D (USSR) said that, in spite of the fact that the Committee's mandate was fully reflected in the secretariat note (TD/B/C.3/236), there was a need to bear in mind the prevailing climate in international economic relations as well as the changes which had occurred recently in the world, particularly in the countries of Eastern Europe. While it was difficult to draw general conclusions on the matter, his group was of the opinion that the Committee should, when dealing with international financial problems, focus on individual problems encountered by countries in different regions, instead of analysing the economic situation of countries by region. Development and indebtedness, for example, were major problems facing individual countries in different regions. Therefore the Committee should continue to examine the problems of attaining sustained economic growth and of debt alleviation, especially as regards countries which had reached critical levels of indebtedness. Having referred to the Group D statement on items 3 and 4, he disagreed with the proposal that the Committee should examine the issue of the reorientation of financial flows from developed countries to countries of Eastern Europe as a consequence of the economic reforms of the latter.

58. In defining the future work programme of the Committee, due account should be taken of the UNCTAD sections of the Medium-term Plan for 1992-1997, which had been agreed at the eighteenth session of the Working Party on the Medium-term Plan and the Programme Budget, in October 1989. The forward-looking ideas contained in that document should serve as a basis for the formulation of the work programme of the Committee.

Action by the Committee

59. At the 225th meeting, on 4 May 1990, the spokesman for Group B (France) introduced a draft decision on item 6 (TD/B/C.3/L.178) which he had submitted on behalf of the States members of Group B. (For the action taken by the Committee, see chapter III, section A, below.)

Chapter III

PROCEEDINGS OF THE 226TH (CLOSING) MEETING, ON 8 MAY 1990

A. Action on agenda items 3, 4 and 6

60. The Chairman introduced the text - available to the meeting in English only - of the draft resolution on agenda items 3, 4 and 6 which he had submitted as a result of informal consultations. Amendments to this text were read out to the Committee.

61. The Committee adopted the draft resolution submitted by the Chairman, as orally amended. The text of the adopted resolution was subsequently issued in all languages in TD/B/C.3/L.179. (See also annex I below, resolution 34 (XIII)).

62. After the adoption of resolution 34 (XIII), the draft resolution in TD/B/C.3/L.176 and the draft decision in TD/B/C.3/L.178 were withdrawn by their sponsors.

B. Concluding statements

63. The spokesman for the Group of 77 (Uruguay) expressed the satisfaction of his Group at the fact that the Committee had been able to agree on a resolution which included issues of substance such as those under agenda items 3 and 4, as well as a programme of work for the Committee - something which had not always been achieved in the past.

64. The representative of China stated that, in a spirit of co-operation and compromise, his delegation had accepted the resolution just adopted, although he considered that the resolution failed to reflect the critical issues now being faced in the area of financing related to trade. It was particularly regrettable, and in fact quite abnormal, that the Declaration adopted by the General Assembly at its eighteenth special session was not duly reflected in the resolution of the Committee. He therefore hoped that, in its future work, the Committeee would come closer to the critical issues in this field and thus be able to fulfil its role more efficiently.

65. The spokesman for Group D (USSR) said that, although the resolution just adopted was very much the result of compromise, the outcome was generally positive. Concessions had been made by all regional groups, including Group D, but the resolution constituted a definite basis for future work in the Committee.

66. The spokesman for Group B (France), noting that the resolution just adpted by consensus provided a programme of work for the Committee, pointed out that all the main Committees of UNCTAD now had a precise programme. This fact, in itself, should lead to greater efficiency and productiveness in the work of UNCTAD.

67. The Chairman observed that, in discussing agenda items 3 and 4, the Committee had naturally taken into account major events and changes which had taken place since its twelfth session in 1986, such as the design and

implementation of the strengthened debt strategy, including the Brady initiative and the Toronto measures, the far-reaching and unprecedented process of policy and economic reforms in the Eastern European countries, and the depressing picture of development finance in the 1980s. He believed that the balanced and positive resolution just adopted gave grounds for a reasonable measure of satisfaction. The resolution was a good agreement, reflecting both the need for making progress in the policy assessment and the solution of important issues, and the concern to provide a work programme for the Committee. It was a good basis not only for the Committee's future sessions, but also for the forthcoming Conference and for discussions in the Trade and Development Board. The work programme agreed upon would strengthen the Committee and enable it to make an original and useful contribution to the intergovernmental debate on monetary and financial issues related to trade and development. He recognized that, in reaching agreement, all parties had made substantial concessions and, in some cases, the Committee had settled for calling upon agreements reached elsewhere.

68. He noted that the work programme of the Committee for its fourteenth session included a number of elements which played an essential role in the development process of the developing countries. Concerning the subject of the generation and mobilization of savings, he highlighted the importance of national policies in increasing domestic savings, the role of fiscal policies, and financial flows to the developing countries. He further noted that the Committee would review adjustment experiences in member countries, taking into account a number of factors.

69. He considered that, valuable and significant as they might be, the results of the current session should not give rise to complacency. Issues which had been before the Committee - including debt, development finance and adjustment - represented problems which still resisted solution, in spite of efforts by all members of the international community. For the peoples of the developing countries, and for their Governments, the policy choices often entailed heavy social and political costs whichever course of action was chosen. Alleviation of the adverse social consequences of adjustment for the poor and vulnerable groups had been a matter of deep concern for the Committee. In several important areas Governments had agreed on the assessment of the situation and on the problems faced, but differences remained with regard to policy measures. The debt crisis which had begun in 1982, for example, was still posing a challenge to Governments. The Committee had made a thorough examination of the recent policy initiatives on debt and of the Declaration adopted by the United Nations General Assembly at its eighteenth special session. The debt problem would certainly remain at the forefront of the policy agenda of the international community for the foreseeable future. There was a need for appropriate institutional changes in the international economic order which should aim at fostering conditions conducive to growth and development, with stability in interest and exchange rates.

Chapter IV

ORGANIZATIONAL MATTERS

(a) Opening of the session

70. The second part of the thirteenth session of the Committee on Invisibles and Financing related to Trade was opened by Mr. A.T. Kaminchia (Kenya), Chairman of the Committee, on 30 April 1990. Opening statements were made by the Chairman and by the Secretary-General of UNCTAD (see paras. 2-6 above).

(b) Election of officers

(Agenda item 1)

71. At its 221st (opening) meeting, on 30 April 1990, the Committee was advised that it would be necessary to elect four Vice-Chairmen in place of officers elected at the first part of the thirteenth session. The Committee accordingly elected Mr. P. Petrov (Bulgaria) in place of Mr. V. Uzel (Czechoslovakia), Mr. A.B. Saber (Iraq) in place of Mr. K. Al Mudaries (Iraq), Ms. N. Gofoun (Sudan) in place of Ms. F. Diagne (Senegal), and Mr. K. Scott (United States of America) in place of Mr. M. Young (United States of America).

72. The Bureau of the Committee at the second part of its thirteenth session was thus as follows:

Chairman:	Mr. A.T. Kaminchia (Kenya)
Vice-Chairmen:	Mr. P. Petrov (Bulgaria)
	Mr. R. Babul (Chile)
	Mr. A.B. Saber (Iraq)
	Ms. N. Gofoun (Sudan)
	Mr. K. Scott (United States of America)
Rapporteur:	Mr. W. Verkooijen (Netherlands)

(c) Adoption of the agenda and organization of work

(Agenda item 2)

73. The agenda for the thirteenth session (TD/B/C.3/227/Add.1) was adopted by the Committee at the first part of the session and read as follows:

1. Election of officers

2. Adoption of the agenda and organization of work

3. Review of international monetary and financial questions related to trade and development, including, in particular, official development co-operation

4. Debt and managing adjustment: attracting non-debt-creating financial flows and new lending

5. Invisibles: insurance */

6. Review of the work programme of the Committee

7. Other business

8. Provisional agenda for the fourteenth session of the Committee

9. Adoption of the report of the Committee to the Trade and Development Board.

74. The Chairman recalled that, at the time of the adoption of the agenda, the Committee had noted the interpretative statement made by the representative of China regarding the wording of item 4.

(d) Membership and attendance

75. The following States members of UNCTAD, members of the Committee, were represented at the session: Algeria; Argentina; Australia; Austria; Bahrain; Bangladesh; Belgium; Bolivia; Brazil; Bulgaria; Cameroon; Canada; Chile; China; Côte d'Ivoire; Cuba; Czechoslovakia; Democratic People's Republic of Korea; Denmark; Ecuador; Egypt; Ethiopia; Finland; France; German Democratic Republic; Germany, Federal Republic of; Ghana; Greece; Hungary; India; Indonesia; Iran (Islamic Republic of); Iraq; Ireland; Italy; Japan; Jordan; Kenya; Lebanon; Madagascar; Malaysia; Mexico; Morocco; Netherlands; Nicaragua; Nigeria; Norway; Pakistan; Philippines; Poland; Portugal; Qatar; Republic of Korea; Romania; Somalia; Spain; Sri Lanka; Sudan; Sweden; Switzerland; Thailand; Tunisia; Turkey; Union of Soviet Socialist Republics; United Kingdom of Great Britain and Northern Ireland; United Republic of Tanzania; United States of America; Uruguay; Venezuela; Viet Nam; Yugoslavia; Zimbabwe.

76. The following specialized and related agencies were represented at the session: International Monetary Fund. The General Agreement on Tariffs and Trade was also represented.

77. The following intergovernmental organizations were represented at the session: European Economic Community; League of Arab States; Organization of African Unity; Commonwealth Secretariat.

78. The following non-governmental organizations were represented at the session: General Category: International Bar Association. Special Category: International Association of Islamic Banks.

(e) Other business

(Agenda item 7)

Report of the Bureau on credentials

79. At its 226th (closing) meeting, on 8 May 1990, the Committee took note of the report of the Bureau on credentials (TD/B/C.3/238).

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*/ Item considered at the first part of the session.

(f) Provisional agenda for the fourteenth session of the Committee

(Agenda item 8)

80. At the same meeting, the Committee approved the draft provisional agenda for its fourteenth session prepared by the UNCTAD secretariat. The provisional agenda was subsequently circulated in TD/B/C.3/L.180. (For the provisional agenda, see annex II, below.)

(g) Adoption of the report of the Committee to the Trade and Development Board

(Agenda item 9)

81. Also at its closing meeting, the Committee adopted the draft report on the second part of its thirteenth session (TD/B/C.3/L.177 and Add.1-2), with a number of minor amendments, and authorized the Rapporteur to complete the final report as appropriate.

ANNEXES

Annex I

RESOLUTION ADOPTED BY THE COMMITTEE AT THE SECOND PART OF ITS THIRTEENTH SESSION

Resolution 34 (XIII)

REVIEW OF INTERNATIONAL MONETARY AND FINANCIAL QUESTIONS RELATED TO TRADE AND DEVELOPMENT, INCLUDING, IN PARTICULAR, OFFICIAL DEVELOPMENT CO-OPERATION
(Agenda item 3)

DEBT AND MANAGING ADJUSTMENT: ATTRACTING NON-DEBT-CREATING FINANCING FLOWS AND NEW LENDING
(Agenda item 4)

REVIEW OF THE WORK PROGRAMME OF THE COMMITTEE
(Agenda item 6)

The Committee on Invisibles and Financing related to Trade,

Recalling General Assembly resolutions 44/205 and 44/232, as adopted, Trade and Development Board resolution 375 (XXXVI), the Declaration adopted by the General Assembly at its eighteenth special session on international economic co-operation, and the assessment of the economic situation of the member countries in the 1980s, as mentioned in those documents, particularly as regards external indebtedness and the flow of resources to and from developing countries,

Recalling General Assembly resolution 1995 (XIX), relevant Acts and resolutions of successive UNCTAD Conferences, Board resolution 352 (XXXIV), which, by endorsing the report of the Ad hoc Intergovernmental Working Group on the In-Depth Study of the United Nations Intergovernmental Structure and Functions in the Economic and Social Fields (TD/B/1154), inter alia, called upon the Committee at its thirteenth session to give particular attention to the elaboration of a work programme, if possible for the four subsequent years; and recalling its terms of reference contained in Board decision 10 (I),

Recalling also the competences and activities of other international organizations and multilateral institutions,

Determined to maximize the usefulness of the Committee to its members,

I

1. Underscores the importance of the following:

(a) A concerted and committed effort by all countries to enhance the financing of development, thereby contributing to the success of structural adjustment and the reactivation of economic growth and development in developing countries. In this regard, special attention to efforts to enhance the mobilization of official resources (official development assistance (ODA),

officially supplied or guaranteed export credits, and financing from multilateral institutions) and to foster and attract private resources (both lending and non-debt-creating flows) will be required, especially in order to contribute to the implementation of structural reforms for long-term development, including measures to alleviate the adverse social consequences of adjustment for poor and vulnerable groups. Bearing in mind paragraph 27 of the Declaration adopted by the General Assembly at its eighteenth special session, the Committee recognizes that, in view of the huge development tasks ahead, substantial additional aid efforts will be required, both qualitatively and quantitatively;

(b) Continued efforts by the major industrialized countries to promote sustained non-inflationary growth and to narrow imbalances in a manner that can benefit all countries, bearing in mind that the co-ordination of macro-economic policies should take account of the interests and concerns of all countries, including the particular concerns of developing countries;

(c) Continued efforts by developing countries, in fulfilment of their primary responsibility for their own development, to bring about sustained growth by pursuing development-oriented macro-economic stabilization and structural adjustment and reform, designed to respond to the needs of and maximize the potential of all members of society, through, inter alia, greater reliance on market signals, the promotion of domestic savings, and the achievement of favourable conditions for domestic and foreign investment, while keeping control over inflationary tendencies and protecting vulnerable groups;

(d) Achieving a durable and broad solution of the external debt problems of developing debtor countries by a rapid and effective ongoing implementation of the improved and strengthened debt strategy, taking into account, as appropriate, the specific needs of each country. Adequate and early solutions have also to be considered with a view to addressing the serious debt-servicing problems of some other countires. The debt situation of the least developed countries requires special attention.

II

1. Decides that the Committee should at each of its sessions consider a general item as well as a specific and well-defined issue, which would change from one session to the next, taking into account its mandate;

2. Decides also that, at its fourteenth session, the Committee will, with the assistance of the UNCTAD secretariat, review, within the consideration of the general item, the determinants of the results of the adjustment experiences in member countries, with particular reference to factors of domestic support (including measures to reduce social disparities and enhance popular participation), the nature of structural adjustment measures, as well as the external contributory factors, including financial flows, among which ODA;

3. Decides further to take up at its fourteenth session the subject of the generation and mobilization of savings, taking account of domestic factors and relevant external forces and policies. The aspects of this subject to be examined would include, inter alia:

(a) National policies aimed at increasing domestic savings and attracting non-debt-creating flows to developing countries;

(b) The role of fiscal policies in determining the magnitude and patterns of savings and their consequences for the availibility of capital, the level of interest rates and financial flows to developing countries;

(c) The development of national banking systems and of capital and stock markets in developing countries, and related issues, such as the financing of privatization and the role of financial services in development, taking into account national objectives and policies;

4. In the consideration of the above-mentioned items, the Committee will identify measures of technical assistance to enhance managerial and institutional efficiency in developing countries and other means to foster the relevant expertise.

226th meeting
8 May 1990

Annex II

PROVISIONAL AGENDA FOR THE FOURTEENTH SESSION OF THE COMMITTEE */

1. Election of officers
2. Adoption of the agenda and organization of work
3. Adjustment experiences in member countries and related financial questions
4. The generation and mobilization of savings
5. Invisibles: insurance
6. Review of the work programme of the Committee
7. Other business
8. Provisional agenda for the fifteenth session of the Committee
9. Adoption of the report of the Committee to the Trade and Development Board

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*/ Approved by the Committee at its 226th (closing) meeting, on 8 May 1990.

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